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STATE OF MONTANA
GALEN STATE HOSPITAL
Report on the Examination
of Financial Statements
Two Fiscal Years Ended June 30, 1981

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STATE OF MONTANA
GALEN STATE HOSPITAL

Report on the Examination
of Financial Statements
Two Fiscal Years Ended June 30, 1981

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ADMINISTRATIVE OFFICIALS
DEPARTMENT OF INSTITUTIONS

Carroll South

Director

GALEN STATE HOSPITAL
WARM SPRINGS STATE HOSPITAL

Curt Chisholm

Acting Chief Executive Officer

Keith Wilson

Director of Business Services

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Galen State Hospital and the Department of Institutions is included in the back of this report.

	<u>Page</u>
1 Work with the Department of Institutions to reconcile hospital costs and services to those reported on ABARS.	4
<u>Agency Reply:</u> Concur. See page 26.	
2 The Department of Institutions record appropriate reimbursement revenues, accounts receivable, and deferred accounts receivable on SBAS for Galen State Hospital.	5
<u>Department of Institutions' Reply:</u> Concur. See page 26.	
3 Work with the Department of Institutions to establish per diem and medical rates equal to the cost of services.	7
<u>Agency Reply:</u> Concur. See page 26.	
4 The Department of Institutions establish procedures to update the cost of drugs recorded on ABARS.	8
<u>Department of Institutions' Reply:</u> Concur. See page 27.	
5 Work with the Department of Institutions to determine and bill actual ancillary service costs.	9
<u>Agency Reply:</u> Concur. See page 27.	
6A The Department of Institutions establish procedures to assure the recording of all accounts receivable.	10
<u>Department of Institutions' Reply:</u> Do not concur. See page 27.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
6B The Department of Institutions provide adequate supporting documentation for all transactions.	10
<u>Department of Institutions' Reply:</u> Do not concur. See page 27.	
7 Allocate its budget on the same basis as it records expenditures.	11
<u>Agency Reply:</u> Concur. See page 28.	
8A Establish a written policy describing the purpose and use for each of the 15 patient account funds.	13
<u>Agency Reply:</u> Concur. See page 28.	
8B Document support for all patient account transactions.	13
<u>Agency Reply:</u> Concur. See page 28.	
8C Establish procedures to correct the inadequate segregation of duties in patient accounts.	13
<u>Agency Reply:</u> Concur. See page 28.	
9A Require employees who have custody of tools and equipment to sign a receipt for the items.	14
<u>Agency Reply:</u> Do not concur. See page 29.	
9B Conduct inventories of supplies and other expendables without using records indicating the quantity on hand.	14
<u>Agency Reply:</u> Concur. See page 30.	
9C Require review and approval of all adjustments to the supplies inventory and equipment inventory.	14
<u>Agency Reply:</u> Concur. See page 30.	
9D Require that periodic inventories be conducted by employees who do not have physical custody of the items being counted.	14
<u>Agency Reply:</u> Concur. See page 30.	

INTRODUCTION

We performed a financial/compliance audit of the Galen State Hospital for the two fiscal years ended June 30, 1981. The objectives of the audit were to: (1) determine if the hospital's financial statements present fairly the financial position of the various funds for the two fiscal years ended June 30, 1981; (2) determine hospital compliance with applicable laws and regulations; and (3) make recommendations for improving hospital management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Department of Institution's and the Galen State Hospital's staff for their cooperation and assistance during our audit.

BACKGROUND

The Galen State Hospital's primary functions are to provide: 1) treatment of tuberculosis and silicosis; 2) detoxification, diagnosis, treatment, and referral for those persons who seek relief from alcoholism; and 3) long-term inpatient treatment for drug users.

If there is space and funding available, the hospital treats patients with lung diseases and geriatric or senile patients afflicted with pulmonary disorders. In addition, Galen may accept patients who are residents of other state institutions.

The drug rehabilitation program, Project Search, was started in 1972 under a federal Hospital Improvement (HIP) Grant, at Warm

Springs State Hospital. In August of 1974 the program was moved to Galen. In fiscal year 1975 the state of Montana assumed funding responsibility for the program. Now known as Lighthouse, the program is operated as a "therapeutic community" and aims at re-instituting people into a family environment. The program is operated drug-free, and is currently an integral part of Galen State Hospital.

Galen has 218 hospital beds which are licensed by the Montana Department of Health and Environmental Sciences. Of those, 33 are acute care and 185 are intermediate care facilities. The hospital averages 47 percent occupancy or 103 patients per day, distributed as follows:

5	developmentally disabled patients with medical problems
21	alcohol patients being detoxified
1	drug patient being detoxified
4	patients with active tuberculosis
50	geriatric patients
<u>22</u>	acute care patients from Warm Springs and patients with pulmonary disorders
<u>103</u>	Total

The Alcohol Treatment Center has 80 beds, and the drug treatment center has facilities for 15 patients. Each of these facilities average 80 percent occupancy.

As of June 30, 1981, Galen had 299 authorized staff positions. A total of 248 of these positions were filled. Authorized professional staff positions include:

4.1	Doctors (6.1 authorized)
14.6	Registered Nurses (15 authorized)
32	Licensed Practical Nurses (35 authorized)
8	Lighthouse (drug program) staff (8 authorized)
14	Alcohol treatment and rehabilitation staff (16 authorized)

RECOMMENDATIONS OF PRIOR AUDIT

A certified public accounting firm performed an audit of the hospital for the fiscal year ended June 30, 1979. The audit report was issued in November 1979. The report contained 16 recommendations which are still applicable to hospital operations. The hospital concurred with and implemented all 16 prior audit recommendations.

REIMBURSEMENTS

Background

The Department of Institutions is required by law to collect and process per diem and ancillary payments for the care of patients in Galen State Hospital and five other institutions. The department bills for these services based upon the patient's ability to pay. The department bills for services in the following priority: 1) Medicare, 2) private insurance, 3) resident or guardian, and 4) Medicaid.

The department processes per diem and ancillary service charges on its Automated Billing and Accounts Receivable System (ABARS). Galen inputs patient service care information and patient eligibility information into the ABARS system which computes the monthly charges for services provided to its patients. The ABARS assigns a standard cost to each service and prints an itemized monthly charge statement for each patient. Billings are then prepared based on the patients ability to pay and eligibility for private or federally subsidized insurance.

Data Reconciliation Procedures

The Statewide Budgeting and Accounting System (SBAS) is Galen's primary accounting system and reports all costs of the

hospital, while ABARS includes charges to each patient. Galen Hospital costs reported on SBAS and the patient services performed by the hospital are not reconciled to amounts reported by ABARS. The amounts recorded on both systems should be reconcilable if all patient charges are recorded on ABARS. Proper reconciliation between ABARS and the hospital's records should identify any costs not charged to patients and reduce the risk of lost revenue.

The Department of Institutions should reconcile the monthly patient charges reported on ABARS to the amounts billed and the amounts absorbed by the state because of a patient's inability to pay. This reconciliation could provide management additional assurance that all charges are properly recorded and billed.

A previous audit recommended the department perform a reconciliation of the reimbursement system. The department concurred with the recommendation but it was only partially implemented. Department officials stated reconciliations have been performed for all institutions except Galen, Boulder, and Warm Springs State Hospitals. A department official said the department still concurs with the recommendations of the previous audit. He indicated the recommendations will be implemented in fiscal year 1981-82.

RECOMMENDATION #1

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO RECONCILE HOSPITAL COSTS AND SERVICES TO THOSE REPORTED ON ABARS.

SBAS Reporting

The Department of Institutions did not report reimbursement revenue or accounts receivable on Galen's SBAS financial records. In fiscal year 1980-81, the department collected reimbursement revenue amounting to \$1,810,367 as a result of Galen's operations. This revenue and amounts reported as accounts receivable and deferred accounts receivable were recorded on SBAS financial records for the department, which result in Galen's revenue and assets being understated on SBAS and the department's revenue and assets being overstated. Proper matching of revenues and expenditures on SBAS financial reports provides useful information to management and other users of the financial statements. Including revenues on Galen's accounting records would more clearly present the state's net cost of operating the hospital. Galen has adjusted its financial statements to present reimbursement revenue and assets.

The department has initiated procedures to record reimbursement revenue on SBAS for the institution generating the resource.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS RECORD APPROPRIATE REIMBURSEMENT REVENUES, ACCOUNTS RECEIVABLE, AND DEFERRED ACCOUNTS RECEIVABLE ON SBAS FOR GALEN STATE HOSPITAL.

Per Diem Reimbursements

We reviewed the department's calculation of daily per diem rates charged for medical services provided at Galen. We found the state lost reimbursement revenue because Galen charged less than the cost of its services.

Section 53-1-404, MCA, requires the department to calculate the cost of services provided by each state institution. In fiscal year 1979-80, the department billed Medicaid, Medicare, and others at a rate of \$41.63 per day for intermediate medical services costing approximately \$98 per day. A Medicaid official said the state would have been reimbursed at \$44.73 per day if the department had established a rate based upon the cost of the services instead of using the \$41.63 rate.

Using information provided by state Medicaid auditors, we calculated the state General Fund lost revenue amounting to \$49,000 for Galen and \$140,000 for the Center for the Aged during 1979-80 because the department established a per diem rate less than cost. This loss resulted from the rate setting policy for Galen State Hospital and the Center for the Aged. Medicaid auditors could not provide us with the information necessary to calculate the loss, if any, attributable to the other state institutions in Fiscal Year 1979-80 or any institution in Fiscal Year 1980-81 because they have not yet been audited.

Medicaid Rate Changes

In June 1980, Medicaid reimbursement rates increased for medical services. These rate changes were not recorded on the department's ABARS until September 1980. Because of the delay

in implementing the rate changes, Galen and other state institutions lost \$7,000 of reimbursement revenue for medical services provided during July and August 1980. These losses would have been avoided if the Department of Institutions had billed Medicaid for the cost of medical services provided to patients rather than billing the outdated Medicaid rate.

A department official said the department was not notified by Medicaid of the medical service rate change until September 1980. However, if the department billed for all services at actual cost the date of the Medicaid rate change would not have mattered and the revenue would not have been lost.

RECOMMENDATION #3

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO ESTABLISH PER DIEM AND MEDICAL SERVICE RATES EQUAL TO THE COST OF SERVICES.

Drug Prices

The price of drugs on the department's ABARS system is not accurate. Although the cost of all drugs issued by Galen is recorded on the ABARS system, our testing indicated the system is not properly updated with current drug cost information. We tested the price charged to Medicaid, Medicare, and patients for drugs issued by the Galen pharmacy. We found 23 of 28 drugs tested were not properly priced. The pricing errors varied from \$1 to \$4 per prescription with as many patients in our sample being undercharged as were overcharged.

Department policy requires reimbursement for the cost of drugs. A department official said it is the pharmacists' responsibility at each institution to notify ABARS personnel of drug price changes. The Galen pharmacist said he periodically updates ABARS for the contract drug prices, but these prices constantly change, causing outdated information to remain on the system between updates. He also indicated that he would need copies of all drug invoices, which he currently does not receive, to properly update the ABARS drug cost information.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS ESTABLISH PROCEDURES TO UPDATE THE COST OF DRUGS RECORDED ON ABARS.

Ancillary Service Reimbursement

Ancillary services performed by Galen should be billed at the cost of providing the medical services. During the two years ended June 30, 1981 the state General Fund lost \$33,000 because the Department of Institutions did not charge for the full cost of ancillary services. Ancillary services include x-rays, laboratory services, oxygen therapy, medical supplies, drugs, and specialized medical equipment which are charged directly to patients. The costs for these services are not included in the institution's daily per diem rate and are billed separately to Medicaid, Medicare, insurance companies, or patients.

The department bills for ancillary services based on the average cost of the services as reported by a Montana Medical Association study performed in 1975. These charges are periodically increased for inflation using factors established for the Medicaid program. The rates for these ancillary services are not based upon the actual cost of the services provided.

A Medicare official explained that in fiscal year 1980-81 the department billed Medicare \$15,000 for Galen ancillary services which cost \$55,000. The official indicated because the department billed for per diem costs greater than the maximum amount Medicare is allowed to pay, the per diem overcharge offset part of the ancillary service undercharge of \$40,000 resulting in a net loss to the state General Fund of \$19,000 in recoverable ancillary costs. The official said Medicare will not reimburse more than the lower of cost or the amount billed. In fiscal year 1980-81 Galen per diem and ancillary costs chargeable to Medicare were \$158,000, but the department billed Medicare only \$139,000. This resulted in the \$19,000 loss to the state's General Fund. In fiscal year 1979-80 there was a loss of \$14,000.

Department of Institutions officials recognize that state institutions are not billing for the cost of ancillary services. They are working with Galen officials to establish ancillary service rates based on cost.

RECOMMENDATION #5

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO DETERMINE AND BILL ACTUAL ANCILLARY SERVICE COSTS.

Accounts Receivable

The department understated accounts receivable on SBAS in fiscal year 1980-81. Department officials said the accounts receivable recorded on SBAS included only the estimated unbilled services provided in May and June 1981. The department's estimate excluded accounts receivable that were billed prior to June 30, 1981. Consequently, accounts receivable were understated on SBAS by \$338,712.

We reviewed the transactions which recorded \$103,509 of accounts receivable on SBAS. The department could not provide documentation to support the mathematical basis of the estimate.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS:

- A. ESTABLISH PROCEDURES TO ASSURE THE RECORDING OF ALL ACCOUNTS RECEIVABLE.
- B. PROVIDE ADEQUATE SUPPORTING DOCUMENTATION FOR ALL TRANSACTIONS.

BUDGETING

Galen's budget amounts by program, as shown on the accompanying financial statements, represent only the budgeted direct costs of the drug and the alcohol service treatment programs. Support service budgets for these programs are recorded in the Care and Custody program, while the actual expenditures are recorded in the drug or alcohol services program. Consequently, a comparison of budgeted and actual expenditures is useless to

users of the financial statements. Because of this error, in fiscal year 1980-81, the drug and alcohol programs on the financial statements show expenditures exceeded the budget by \$64,180 and \$812,009, respectively, because those programs were not budgeted for support services. In addition, the Care and Custody program reflects unused budget authority of \$968,778.

To provide a meaningful comparison between budgeted and actual expenditures, the hospital should allocate its support service budget on the same basis it uses to allocate actual expenditures. The consistent allocation of budgeted and actual expenditures will increase the value of the information to users of the financial statements.

RECOMMENDATION #7

WE RECOMMEND GALEN STATE HOSPITAL ALLOCATE ITS BUDGET ON THE SAME BASIS AS IT RECORDS EXPENDITURES.

PATIENT ACCOUNTS

There is no established written policy describing how moneys in the 15 funds of the patient account are to be spent. The funds are categorized according to use. The drug center, the alcohol treatment center, and each hospital wing have canteen and recreation funds within the patient accounts. In addition, there is a memorial fund, discharged patient accounts, a deceased patient account, and a care and maintenance clearing account. The moneys are held in trust for patients by the state and deposited in a local bank account. Galen officials write checks on the account for

patients who require all or part of their money. In addition, funds are transferred from individual accounts to the various recreation funds, i.e., canteen fund, patient care fund, maintenance fund, etc. Galen should have an approved written policy describing authorization procedures and appropriate uses of patient moneys.

In fiscal year 1980-81, patient account receipts amounted to \$142,843 and disbursements were \$139,151. In addition, Galen transferred \$87,696 between approximately 15 accounts within the patient accounting entity. Our tests of transactions indicated disbursements from the accounts were reasonable based on explanations of officials and other support documentation. However, because Galen has no written patient account policy, we could not determine that all the transactions were properly authorized or treated consistently throughout the year. We found that 20 percent of the transfers tested lacked sufficient support documentation for us to determine the reasonableness of these accounting entries. The hospital did not keep all receipts for purchases made on behalf of Galen patients to document the cost of purchase.

Segregation of Duties

Galen can improve its control over patient accounts by segregating duties now performed by one accountant. The accountant currently performs the following incompatible functions.

1. He collects cash from patients, deposits the money, and maintains the accounting records.
2. He authorizes transfers of funds within the account.

3. He balances individual records to the monthly patient account reconciliation.
4. And he prepares and signs most checks drawn on the patient accounts.

By combining these functions with one individual, Galen increases the risk that errors or omissions, either accidental or intentional, will occur without detection. Galen can reduce this risk by separating the accounting functions from the cash collection, deposit, and check writing functions of patient accounts.

RECOMMENDATION #8

WE RECOMMEND GALEN STATE HOSPITAL:

- A. ESTABLISH A WRITTEN POLICY DESCRIBING THE PURPOSE AND USE FOR EACH OF THE 15 PATIENT ACCOUNT FUNDS.
- B. DOCUMENT SUPPORT FOR ALL PATIENT ACCOUNT TRANSACTIONS.
- C. ESTABLISH PROCEDURES TO CORRECT THE INADEQUATE SEGREGATION OF DUTIES IN PATIENT ACCOUNTS.

EQUIPMENT AND INVENTORY

Galen should fix responsibility for items of equipment with the individual employees who have custody of the equipment. Residents of state employee housing are not required to sign a receipt for furnishings within their housing unit. Plumbers and carpenters and other maintenance personnel are not held accountable for state-owned tools or equipment used on their jobs.

Employees are using the hospital's perpetual inventory records as a guide for taking inventory. When differences exist between the items on hand and the quantities reported on the inventory cards, they adjust the records to agree with the amount on hand. Inventories should be taken without using property records showing the amount of supplies on hand, and the adjustments should be reviewed and approved by management.

Periodic inventories are conducted by the warehousemen and other employees who have physical custody of the hospital's supplies. Inventories should be conducted by someone other than the person who has custody of the inventory items.

RECOMMENDATION #9

WE RECOMMEND GALEN STATE HOSPITAL:

- A. REQUIRE EMPLOYEES WHO HAVE CUSTODY OF TOOLS AND EQUIPMENT TO SIGN A RECEIPT FOR THE ITEMS.
- B. CONDUCT INVENTORIES OF SUPPLIES AND OTHER EXPENDABLES WITHOUT USING RECORDS INDICATING THE QUANTITY ON HAND.
- C. REQUIRE REVIEW AND APPROVAL OF ALL ADJUSTMENTS TO THE SUPPLIES INVENTORY AND EQUIPMENT INVENTORY.
- D. REQUIRE THAT PERIODIC INVENTORIES BE CONDUCTED BY EMPLOYEES WHO DO NOT HAVE PHYSICAL CUSTODY OF THE ITEMS BEING COUNTED.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of Galen's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation of the hospital's system of internal accounting control for fiscal year 1979-80 and 1980-81 would not necessarily disclose all weaknesses in the system because it was based upon selected tests of accounting records and related data. Our tests disclosed no material weaknesses in internal control. However, those internal control weaknesses identified during the audit and which warrant management's attention are described in various sections of this report.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA
Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

JAMES H. GILLET, C.P.A.
ACTING LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

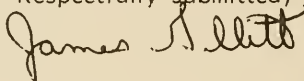
The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheets for all funds and account groups of Galen State Hospital as of June 30, 1981, and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds for the two years then ended. Our examination was made in accordance with generally accepted government auditing standards for financial compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of such funds of the Galen State Hospital at June 30, 1981, and the results of operations and changes in fund balance of the General and Special Revenue Funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the combination of funds as described in Note 1 to the financial statements have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The column on the accompanying financial statements referred to in paragraph one captioned "Total (Memorandum Only)" is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. This supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James H. Gillett". The signature is fluid and cursive, with the first name "James" being more prominent.

James H. Gillett, CPA
Acting Legislative Auditor

October 23, 1981

GALEN STATE HOSPITAL
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1981

	GOVERNMENTAL	FUND TYPES	FIDUCIARY	ACCOUNT GROUP	Total
	General Fund	Special Revenue Fund	FUND TYPE Patient Accounts	General Fixed Assets	(Memorandum Only) June 30, 1981
Receivable (Net of Allowance collectibles of \$96,300)	\$ 3,000	\$ 68	\$42,557		\$ 45,625
Accounts Receivable	445,632	246			445,878
Allowance for Doubtful Accounts	468,449				468,449
Other Funds	(340,573)				(340,573)
Due to Pay Accrued Expenditures	33,299				33,299
Inventory of Supplies at Cost	275,657	47,708			323,365
	173,530				173,530
Land & Improvements				\$ 2,400	2,400
Intangible Assets				4,267,504	4,267,504
ASSETS	<u>\$1,058,994</u>	<u>\$48,022</u>	<u>\$42,557</u>	<u>781,272</u>	<u>781,272</u>
				<u>\$5,051,176</u>	<u>\$6,200,749</u>
LIABILITIES AND FUND BALANCE.					
Accounts Payable	\$ 194,526	\$10,311			\$ 204,837
Expenditures	81,131	4,098			85,229
Revenue	127,876				127,876
Unaffiliated Entity	481,931				481,931
Other Funds		33,299			33,299
Patients			\$42,557		42,557
Liabilities	<u>885,464</u>	<u>47,708</u>	<u>42,557</u>		<u>975,729</u>
NET ASSETS:					
Investment in Fixed Assets				\$5,051,176	5,051,176
Inventory of Supplies	173,530				173,530
Balance	-0-	314			314
Fund Equity	<u>173,530</u>	<u>314</u>	<u>-0-</u>	<u>5,051,176</u>	<u>5,225,020</u>
LIABILITIES AND FUND EQUITY	<u>\$1,058,994</u>	<u>\$48,022</u>	<u>\$42,557</u>	<u>\$5,051,176</u>	<u>\$6,200,749</u>

The financial statements are an integral part of this statement.

GALEN STATE HOSPITAL
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ALL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 1981

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Contributions	\$ 1,038,065	\$ 1,810,367	\$ 772,302				\$ 1,038,065	\$ 1,810,367	\$ 772,302
Gifts, Grants, & Royalties	36,050	37,241	1,191				36,050	38,555	2,505
Total Revenues	<u>1,074,115</u>	<u>1,847,608</u>	<u>773,493</u>	<u>\$ -0-</u>	<u>\$ 1,314</u>	<u>\$ 1,314</u>	<u>1,074,115</u>	<u>1,848,922</u>	<u>774,807</u>
EXPENDITURES									
Salaries & Benefits	\$ 1,926,820	\$ 1,765,908	\$ 160,912	\$ 808,806	\$ 1,000	\$ 807,806	\$ 4,735,686	\$ 3,766,908	\$ 968,778
Medical Services	172,473	236,653	(64,180)				172,473	236,653	(64,180)
Other Services		4,698	(4,698)	440,567	1,247,878	(807,311)	440,567	1,252,576	(812,009)
Total Expenditures	<u>4,099,293</u>	<u>4,007,259</u>	<u>92,034</u>	<u>1,249,373</u>	<u>1,248,878</u>	<u>555</u>	<u>5,348,726</u>	<u>5,256,137</u>	<u>92,589</u>
EXCESS OF CURRENT REVENUES OVER									
(UNDER) CURRENT EXPENDITURES	<u>(1,025,178)</u>	<u>(2,159,651)</u>	<u>865,527</u>	<u>(1,249,373)</u>	<u>(1,247,564)</u>	<u>1,869</u>	<u>(4,274,611)</u>	<u>(3,407,215)</u>	<u>867,396</u>
OTHER FINANCING SOURCES (USES)									
Year-End Adjustments	(133)	(133)	-0-	-0-	-0-	-0-	(133)	(133)	-0-
Portion from General Fund/ Special Revenue Fund	<u>1,074,115</u>	<u>2,159,784</u>	<u>(865,527)</u>	<u>1,248,433</u>	<u>1,247,878</u>	<u>(555)</u>	<u>4,273,744</u>	<u>3,407,662</u>	<u>(866,082)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES									
(USES)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,000)</u>	<u>314</u>	<u>1,314</u>	<u>(1,000)</u>	<u>314</u>	<u>1,314</u>
BALANCE JULY 1, 1980	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
BALANCE JUNE 30, 1981	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (1,000)</u>	<u>\$ 314</u>	<u>\$ 1,314</u>	<u>\$ (1,000)</u>	<u>\$ 314</u>	<u>\$ 1,314</u>

Notes to the financial statements are an integral part of this statement.

GALEN STATE HOSPITAL
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ALL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 1980

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Payments	\$ 904,499	\$ 965,017	\$60,518				\$ 904,499	\$ 965,017	\$60,518
Interest, Leases, & Royalties	36,050	38,961	2,911				36,050	39,767	3,717
Net Revenues	<u>940,549</u>	<u>1,003,978</u>	<u>63,429</u>	\$ -0-	\$ 806	\$806	<u>940,549</u>	<u>1,004,784</u>	<u>64,235</u>
EXPENDITURES:									
Administration	1,012,784	944,509	68,275	1,000	1,000		1,013,784	945,509	68,275
Custody	2,620,194	2,656,768	(36,574)				2,620,194	2,656,768	(36,574)
Medical Services		847	(847)	1,219,021	1,219,021	-0-	1,219,021	1,219,868	(847)
Capital Expenditures	<u>3,632,978</u>	<u>3,602,124</u>	<u>30,854</u>	<u>1,220,021</u>	<u>1,220,021</u>	<u>-0-</u>	<u>4,852,999</u>	<u>4,822,145</u>	<u>30,854</u>
OF CURRENT REVENUES OVER CURRENT EXPENDITURES	(2,692,429)	(2,598,146)	94,283	(1,220,021)	(1,219,215)	806	(3,912,450)	(3,817,361)	95,089
FINANCING SOURCES (USES):									
Year Adjustments	201,129	201,129	-0-	(1,247)	(1,247)	-0-	199,882	199,882	-0-
Net from General Fund/ Capital Revenue Fund	<u>2,491,300</u>	<u>2,397,017</u>	<u>(94,283)</u>	<u>1,219,663</u>	<u>1,219,663</u>	<u>-0-</u>	<u>3,710,963</u>	<u>3,616,680</u>	<u>(94,283)</u>
OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	-0-	-0-	-0-	(1,605)	(799)	806	(1,605)	(799)	806
BALANCE JULY 1, 1979	-0-	-0-	-0-	799	799	-0-	799	799	-0-
BALANCE JUNE 30, 1980	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (806)</u>	<u>\$ -0-</u>	<u>\$806</u>	<u>\$ (806)</u>	<u>\$ -0-</u>	<u>\$ 806</u>

These statements are an integral part of this statement

GALEN STATE HOSPITAL

Notes to Financial Statements

Fiscal Year Ending June 30, 1980 and June 30, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with adjustments.

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt.

Fund Types

On July 1, 1979, the state of Montana accounts were organized by a fund structure as outlined in section 17-02-102, MCA. For financial presentation, these funds have been reclassified according to the Governmental Accounting and Financial Reporting Principles Statement 1 issued by the National Council on Governmental Accounting.

GOVERNMENTAL FUND TYPES

General Fund -- To account for receipt and expenditure of money allocated to Galen by the state for support of Galen programs and agency administration.

Special Revenue Fund -- To account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. This fund corresponds to the Earmarked Revenue Fund and the Federal and Private Revenue Fund within the state treasury fund structure.

FIDUCIARY FUND TYPES

Agency Fund -- The agency fund is used to account for assets held by the state as an agent for patients, patient organizations, and/or other funds. A checking account is maintained in a local bank for this account. Individual ledger cards are established for each patient or organization.

Inventories

Supply inventories are valued using the first-in, first-out valuation method. Supplies are expensed at the time of purchase.

General Fixed Assets

This account group accounts for all land, buildings, and equipment of the hospital. Fixed assets are valued at cost. No depreciation is recorded on general fixed assets.

Vacation and Sick Leave

The liability amount associated with unused accumulated vacation and sick leave at June 30, 1980 and June 30, 1981 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates and is not readily determinable at June 30, 1981. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

2. EMPLOYEES' RETIREMENT SYSTEM

The hospital employees are covered by the Public Employees' Retirement System (PERS). Under the plan, the hospital contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to PERS. During fiscal year 1979-80, the hospital contributed \$225,299. The hospital

contributed \$220,771 during the fiscal year 1980-81. At June 30, 1980 the Public Employees' Retirement System was actuarially sound according to a report by the System's actuary. The unfunded past service and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the hospital.

3. BUDGET INFORMATION

The hospital utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amount are set for each fiscal year of a biennium by the legislature. Appropriations control the hospital's financial operations during each fiscal year. At the end of each year, the hospital's appropriation authority reverts to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year for payment of valid prior year obligations. In fiscal years 1979-80 and 1980-81 the hospital's appropriations were \$4,852,999 and \$5,348,726, respectively.

The budgeted expenditures by program, as shown on the financial statements for the fiscal year ending June 30, 1981, represent only the direct costs of the drug and alcohol services treatment programs. The actual expenditures as shown on the financial statements represent the direct costs of the programs, as well as the cost of the support services which are budgeted in the care and custody program. These support services include administration, ancillary services, and plant operations.

4. CHANGES IN ACCOUNTING PROCEDURES

For the fiscal year 1979-80 there were three programs: Administration, Care and Custody, and Alcohol Services. For the fiscal year 1980-81 administrative costs are recorded in Care and Custody programs and distributed to the other programs. Also, the Drug Services was established as a separate program. Programs for fiscal year 1980-81 are Care and Custody, Drug Services, and Alcohol Services.

5. REIMBURSEMENT

Reimbursements are funds received for patient services provided by the hospital. The hospital receives reimbursements from four sources: Medicare, Medicaid, private insurance companies, and individuals responsible for the patients. Reimbursements are deposited in the General Fund in accordance with section 53-1-413, MCA.

6. SUPPLEMENTAL INFORMATION

The items on the financial statements titled Total (Memorandum Only) is not necessary to a fair presentation, but is presented as supplemental information and does not present consolidated financial information.

7. MEAL COSTS

The hospital provides one meal per shift to all employees as a historical or union benefit. The approximate value of these meals each year is \$158,200. Of this total, \$41,680 is applicable to direct food cost. The remaining \$116,520 is the cost of the labor and other items used to prepare the food.

AGENCY REPLY

DEPARTMENT OF INSTITUTIONS



TED SCHWINDEN GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 449 3930

HELENA, MONTANA 59620

RECEIVED

MAR 15 1982

MONTANA LEGISLATIVE AUDITOR

March 12, 1982

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Gentlemen:

We have reviewed the audit report prepared by the Office
of the Legislative Auditor on Galen State Hospital.

The report provides a very welcome service and is
sincerely appreciated.

Our response to recommendations is attached.

Sincerely,

CARROLL V. SOUTH, Director
Department of Institutions

CVS:sd

Attachment

GALEN STATE HOSPITAL
AUDIT RESPONSE

RECOMMENDATION #1

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO RECONCILE HOSPITAL COSTS AND SERVICES TO THOSE REPORTED ON ABARS.

RESPONSE: We agree. The reconciliation of Galen's costs to charges was completed several months ago, and we are working on similar reconciliations for Boulder and Warm Springs. The hospital staff will work with central office personnel to develop procedures to reconcile services.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS RECORD APPROPRIATE REIMBURSEMENT REVENUES, ACCOUNTS RECEIVABLE, AND DEFERRED ACCOUNTS RECEIVABLE ON SBAS FOR GALEN STATE HOSPITAL.

RESPONSE: Reimbursement revenue and accounts receivable for Galen are accounted for in the audited financial statements contained in this report. The Department has routinely recorded the revenue on Galen's SBAS records since July, 1981 and has no plans to discontinue doing so.

RECOMMENDATION #3

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO ESTABLISH PER DIEM AND MEDICAL SERVICE RATES EQUAL TO THE COST OF SERVICES.

RESPONSE: We acknowledge that our per diem rates were too low in Fiscal Year 1979-1980, but point out that our rates were properly calculated in fiscal year 1980-1981, and in the current fiscal year. These rates were based on budgeted costs, as provided by statute.

With regard to our medical services (ancillary) rates, we have implemented the reconciliation procedures discussed in recommendation #1. Once those reconciliations are completed, we can adjust our rates accordingly.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS ESTABLISH PROCEDURES TO UPDATE THE COST OF DRUGS RECORDED ON ABARS.

RESPONSE: We agree. We will review our procedures for updating the prices of drugs recorded on ABARS, and will establish appropriate controls to ensure that prices are changed correctly whenever new drugs are purchased.

RECOMMENDATION #5

WE RECOMMEND GALEN STATE HOSPITAL WORK WITH THE DEPARTMENT OF INSTITUTIONS TO DETERMINE AND BILL ACTUAL ANCILLARY SERVICE COSTS.

RESPONSE: We agree. We have implemented the reconciliation procedures discussed in recommendation #1. Once these reconciliations are completed, we can adjust our rates accordingly.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS:

- A. ESTABLISH PROCEDURES TO ASSURE THE RECORDING OF ALL ACCOUNTS RECEIVABLE.
- B. PROVIDE ADEQUATE SUPPORTING DOCUMENTATION FOR ALL TRANSACTIONS.

RESPONSE:

- A. We believe our procedures are adequate to assure the recording of all accounts receivable. As the audit staff was aware, the error in recording receivables in 1981 was due to a misunderstanding by the persons making the calculations as to which accounts were to be included. We will record all reimbursement accounts receivable in future years, as we attempted to do in 1981.
- B. We feel that our supporting documentation was adequate for this transaction. Several times our personnel explained to the audit staff how these amounts were calculated. In fact, the auditors' own estimate of one month's revenue was not significantly different from our own. It is true that we no longer have the work sheets showing our calculations. But, because we were able to explain the basis for the calculations, and because the amounts could be verified by repeating the calculations, we do not feel that our documentation was inadequate.

RECOMMENDATION #7

WE RECOMMEND GALEN STATE HOSPITAL ALLOCATE ITS BUDGET ON THE SAME BASIS AS IT RECORDS EXPENDITURES

RESPONSE: The budgeted amounts as they appear are based on an operational plan submitted at the beginning of the year. At the time the operation plan was submitted there was no clear basis for establishing a budget for support services in the various treatment programs. The costs are derived through an allocation basis which is derived during the year's operations. The basis can and does change from year to year and in the initial phases of the allocation process, as was the case in Fiscal Year 80-81, it was nearly impossible to determine with any accuracy what the support costs would be. As experience is gained and historical information gathered, more precise operational plans would be able to be submitted.

RECOMMENDATION #8

WE RECOMMEND GALEN STATE HOSPITAL:

- A. ESTABLISH A WRITTEN POLICY DESCRIBING THE PURPOSE AND USE FOR EACH OF THE 15 PATIENT ACCOUNT FUNDS.
- B. DOCUMENT SUPPORT FOR ALL PATIENT ACCOUNT TRANSACTIONS.
- C. ESTABLISH PROCEDURES TO CORRECT THE INADEQUATE SEGREGATION OF DUTIES IN PATIENT ACCOUNTS.

RESPONSE:

- A. Concur with this recommendation.
- B. Concur. The current policy requires document support for all patient account transactions, and has been implemented.
- C. Due to the number of personnel at Galen, the segregation of duties is limited. Current procedures are as follows:
 1. All receipts of cash or checks are recorded on prenumbered receipts with all receipts being accounted for.
 2. All transfers of funds within the account required prior authorization by the accountant supervisor.

3. Monthly reconciliations are verified by the accountant supervisor in the following manner.
- a) Verify the receipts by balancing all receipts for the patient account to the reconciliation.
 - b) All withdrawals are by check and the balance in the check register must agree to the reconciliation.
 - c) On a monthly basis random selection of 6 individual patient cards are selected by the accountant supervisor and all documents are checked individually for receipts, withdrawals, transfers, beginning and ending balances.
 - d) All disbursements from the patient account are by check and all checks must be supported by the proper documentation. Due to the limited number of personnel, the checks are prepared and signed by the accountant.

RECOMMENDATION #9

WE RECOMMEND GALEN STATE HOSPITAL:

- A. REQUIRE EMPLOYEES WHO HAVE CUSTODY OF TOOLS AND EQUIPMENT TO SIGN A RECEIPT FOR THE ITEMS.
- B. CONDUCT INVENTORIES OF SUPPLIES AND OTHER EXPENDABLES WITHOUT USING RECORDS INDICATING THE QUANTITY ON HAND.
- C. REQUIRE REVIEW AND APPROVAL OF ALL ADJUSTMENTS TO THE SUPPLIES INVENTORY AND EQUIPMENT INVENTORY.
- D. REQUIRE THAT PERIODIC INVENTORIES BE CONDUCTED BY EMPLOYEES WHO DO NOT HAVE PHYSICAL CUSTODY OF THE ITEMS BEING COUNTED.

RESPONSE:

- A. Current policy in contractual language provide that the employer will provide small tools for the craft personnel. Also provided for is that tools will be repaired or replaced only if such tools requiring repair or replacement are turned in to

the Maintenance Supervisor. Any tools which are lost or stolen must be replaced at the employee's expense. In Fiscal Year 1980, approximately \$720 was spent for small tools. In Fiscal Year 1981 there was no order submitted for small tools. In Fiscal Year 1982 we have placed an order for \$1,054. This represents an average of \$591 per year for the last three fiscal years. In view of this, it does not appear cost effective to establish a checkin/checkout system for small tools. Any potential savings generated would be very minimal and the time involved for the craft personnel could be and excessive waste of time.

- B. Concur with this recommendation.
- C. Concur with this recommendation.
- D. Concur with this recommendation.

